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|---|---|---|
| TSE | 10,320.76 | +293.86 |
| CDNX | 3328.03 | +30.43 |
| DOW | 10,192.18 | +157.60 |
| NASDAQ | 3316.77 | +242.09 |
| GOLD (N.Y.) | $272.40 | –$4.00 |
| DOLLAR | 66.36 | +0.16 |
| PRIME RATE | 7.50 | UNCH. |

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The Gazette
BUSINESS
SECTION G
Trading Highlights G4
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SATURDAY, OCTOBER 14, 2000

# Jitec, Herbert Black clash

DON MACDONALD
*The Gazette*

It's hard not to be impressed by the Nuns' Island headquarters of **Jitec Inc.** Security at the reception desk is tight and gets even tighter in the company's inner sanctum.

Chief executive officer Benoît Laliberté must insert his index finger into a device that verifies his identity before releasing the door to Jitec's control centre.

Once inside, a visitor is confronted by a dim room where employees sit before banks of computers that face a wall dominated by a screen with a glowing schematic diagram of Jitec's network.

In another room, Laliberté demonstrates the computer system that Jitec builds and sells to customers.

The technology is complex but the idea is seductively simple. Laliberté asks the question: Why should companies shell out millions to put high-powered personal computers on every desk with the requisite software, servers and tech-support personnel?

Jitec has another solution. For a monthly fee of $49.95, it will put one of its terminals along with a computer screen on a desk. This gear is then connected to powerful, centralized computers off-site where the user has access to all the latest software, high-speed Internet, unlimited storage capacity and tech support.

Investors apparently find the business plan appealing. They've bid up Jitec, a company that has yet to publicly report financial results, to a market value of $440 million.

Laliberté, who at 28 has been building his company since the tender age of 14, owns a block of about 39 million Jitec shares, giving him a personal fortune, on paper, of $273 million at yesterday's close of $7.

And according to the latest insider-trading reports from the Quebec Securities Commission, Laliberté hasn't been shy to trade Jitec stock. The report shows he bought 465,700 shares in 34 transactions ranging in price from $4.30 to $10.17 between July 27 and Sept. 7. The report also shows sales of 212,800 shares in four transactions ranging in price from $5 to $8.69 during the same period.

**Herbert Black: selling short.**

For Laliberté, a former Canadian young entrepreneur of the year, Jitec is "a tremendous company with a bright future" that is facing just one problem. And that problem's name is Herbert Black.

Laliberté said he believes Black, a prominent Westmount millionaire, has organized a scheme to sell about one million Jitec shares short over the last month.

But Black strenuously denies Laliberté's allegations.

Since being listed on the Montreal Exchange July 26, Jitec shares have traded in huge volumes – an average of 256,000 a day. That's by far the most for any stock on the ME during that period.

And the share price has swung wildly. It went from a $3.80 close its first day of trading to a high of $11.65 on Aug. 10. Intraday volatility has often been high.

As reported in *The Gazette* last week, unusual trading patterns have drawn the attention of the Quebec Securities Commission, which is currently investigating market action in Jitec stock.

Sources say QSC investigators have visited a number of brokerage offices in recent days seeking information on Jitec trades. That follows a letter the QSC sent to brokers on Sept. 12 asking for details of Jitec trades between July 26 and Sept. 1, including client names.

Laliberté said Black, president of **American Iron & Metal Co.**, began courting him last month, offering to act as a go-between to arrange sales of his Jitec shares to Quebec institutional investors. When Laliberté resisted, Black became more insistent, urging him to sell a million of his personal shares at $4 apiece, said Laliberté, adding he believes Black needs the stock to cover short sales.

Laliberté said he refused to sell the shares last week. Since then, Laliberté alleges that Black has been highly critical of him and the company in contacts with brokers and the media.

"He shorted the stock at $8 or $9. So now he still has the need for the stock to go down. That's the only way he's going to make money," he said.

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# Signs of life at Cinar

## Division head sees light at end of tunnel

MARY LAMEY
*The Gazette*

There are bad days and there are really bad days. Peter Moss's debut as president of **Cinar Corp.**'s entertainment division was the latter kind.

Moss, a respected children's entertainment-industry veteran, began his new job as head of Canada's premier kiddie's production house on March 6, just as all hell broke loose in the land of Caillou. On that date, Cinar disclosed that $122 million had been invested without the authorization of its board of directors and that $86 million remained unaccounted for.

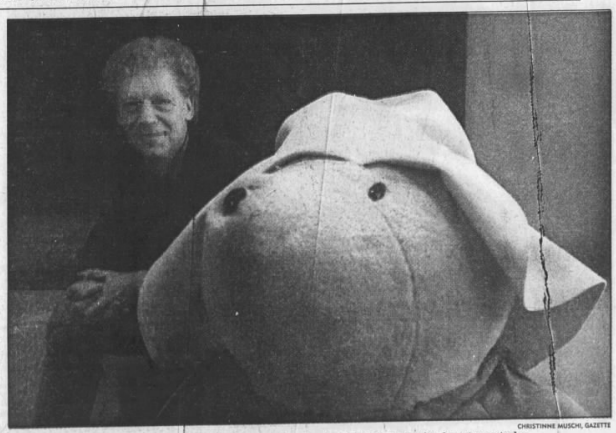
The company's third-ranking officer, Hasanain Panju, was fired on the spot, while co-founders and co-chief executives Ronald Weinberg and Micheline Charest resigned and soon thereafter were placed on administrative leave.

"I showed up with my shoes polished and my pencils sharpened and met Ron and Micheline's lawyer, who told me they'd been replaced," Moss said. "The *cinq à sept* that had been organized so that I could meet my colleagues became a good-bye for them."

It was hardly an auspicious beginning, and Moss admits that he felt like he'd been hit with the world's biggest pie in the face.

"I must have some really weird karma to work out," he said in an interview in his office on the ninth floor of Cinar headquarters. The suite of offices is decorated in kid-pleasing shades of pale yellow and crayon blue. In the reception area, a giant Paddington Bear sprawls on the sofa. (Cinar owns the animated rights to the bear from darkest Peru.) One wall is dominated by international prizes, including a clutch of daytime Emmys.

Moss came to Cinar after stints with YTV and Treehouse, a specialty channel for preschoolers. He's also worked as an executive producer with the Children's Television Workshop, home of Sesame Street and head of children's programming at the CBC. He doesn't need the headaches that come from being involved with Canada's latest financial *bête noire*. The bad news, which grew worse by the day, might reasonably have sent another soul screaming back to Toronto, but not Moss.



CHRISTINNE MUSCHI, GAZETTE

**Peter Moss poses with Paddington Bear, for which Cinar owns the animated rights, at company headquarters yesterday.**

"What attracted me was the fact that Cinar was one of the world's best producers of children's programming, bar none. It still is. This is still a great place to work."

That doesn't mean it's an easy place to work. Cinar, which for years was held up as a shining example of entrepreneurship and creativity, has been earning headlines of a different kind in recent months.

First came accusations of tax fraud, in which the names of Canadian writers were affixed to scripts written by Americans. Then came the unauthorized investments in a trio of Bahamian investment funds, money the company is slowly recuperating. Finally, Weinberg, Charest and Panju were accused of making "hundreds" of inappropriate business transactions involving Cinar funds.

Moss became aware of the fake-name problem as soon as he joined the company. His attitude was that "this was something wrong and serious, but not something that would rock the company."

"Corporately, we applied for some tax credits which we didn't deserve. There's nothing criminal in that," he said, adding that the complexity of the funding rules leaves lots of room for interpretation. "Whether the RCMP wants to go after the former chief executives is another matter."

As the scandal widened, the RCMP and federal and provincial tax authorities launched investigations, and cultural funding agencies Telefilm Canada and SODEC refused to fund future Cinar productions until it cleaned house. The Toronto Stock Exchange and Nasdaq suspended trading in the company's stock, and class-action suits by angry investors multiplied.

Against this backdrop, Moss has a job to do, namely marshalling Cinar's animated and live-action programming from the idea stage to finished product. It's up to him to strike deals with international production partners and sell Cinar's shows around the world.

In April, Moss and Cinar's sales team went to MIP-TV, one of two major TV trade shows held annually at Cannes. Word drifted back over the Atlantic that Cinar was being treated like a pariah, reports company spokesmen dismissed as malicious gossip from spiteful competitors.

Yesterday, Moss admitted that Cinar had a lousy time at MIP. "People were very hesitant. Everyone who came to see us would ask, 'How are you?' " he said, his voice dripping with treacly empathy.

The company did no new business at MIP. Without Telefilm's blessing, Cinar no longer qualified to make international co-productions. Its programs were not eligible for tax incentives. By extension, foreign partners working with Cinar would not be eligible for government incentives in their home countries, either.

"That made things very difficult," Moss admitted. "People would ask us what was going on and when things would be back to normal, and we would have to tell them, in all honesty, that we didn't know."

In the last month, Cinar's new president, insurance-industry veteran Barrie Usher, issued a letter to shareholders, offering hope that some of the problems will be resolved soon.

Please see CINAR, Page G2

# Not all cities play industrial-subsidy game

Last year, when Taiwanese chip manufacturer **Mosel Vitelic** was trolling for dollars all over Canada and Europe, among the many cities to snap at the bait of a big, futuristic microchip plant were Edmonton and Ottawa.

Both were excited about the idea of winning this industrial plum and both had significant advantages to offer the company. Edmonton had very low costs for everything from land to utilities, while Ottawa had an excellent talent pool in microelectronics.

Both cities dropped out, though, as Mosel made it clear that it wasn't so much searching for the best industrial site as for the fattest subsidy package.

"We would have loved to attract Mosel here," acknowledges Réjean Chartrand, executive director of economic affairs for the Region of Ottawa Carleton, but provincial policy just wouldn't permit a big subsidy. "The Harris government's strategy is to try to make the whole investment environment right rather than to just go after one kind of investment," explains Chartrand.

In Edmonton, Linda Daniller of Economic Development Edmonton, the local industrial-promotion agency, was a little blunter. Right after her city decided it couldn't afford a Mosel Vitelic plant, she told a local reporter that "it doesn't make sense to get a billion-dollar plant if you have to spend a billion to get it."

Something these two cities had in common was that, attractive as a modern plant with 1,260 workers might be, they had decided that it wasn't worth absolutely any price.

Witnessing the bidding game that has pushed up the value of Quebec's subsidy offer for a $3-billion plant to more than $2 billion, Daniller is now content to be on the sidelines.

She concedes that Edmonton, like Ottawa, would love to have the plant, but only if the deal made sense. "There was no way that it was going to be worth that type of cash infusion. Not at that price. Definitely not at that price."

Is this sour grapes? Maybe not, because both Edmonton and Ottawa have better-than-average investment prospects, helped along by something conspicuously absent in Montreal.

JAY BRYAN

Both cities have developed a disciplined process that seeks to build prosperity by identifying each region's existing economic strengths and mobilizing the local business community to make the most of them. Indeed, business leaders make the key decisions and get only minimal financial help from government.

Outside investors are welcome, too, of course, but they aren't the desperately sought benefactors that they have become for Quebec.

With detailed plans that lay out where resources can be used to produce the most bang for the buck, the quest for industrial development in cities like Edmonton and Ottawa is not a Quebec-style series of bidding contests for trophy investments.

Instead, incentives are small, but the city makes up for this by making sure key industries co-operate with each other and with government to have their needs met. Government officials work to provide excellent infrastructure, educational programs and government services. The goal to produce an environment in which investors know they will do well, even without big subsidies.

Let's compare this with the process that has brought us the troubled Mosel Vitelic proposal. Quebec ran the whole process, not telling local business groups what it was doing until it had already made huge subsidy commitments to Mosel Vitelic.

To this day, business leaders say they don't have enough information to know whether the project is worth its cost in public funds, and many of the electronics firms that would, according to Quebec, be beneficiaries of this investment are actually opposed to this misuse of their tax dollars.

Worst of all, the decision to underwrite this huge investment isn't based on any serious, widely accepted analysis of how best to develop the Montreal regional economy.

ICF Consulting of San Francisco, which worked on the development plans for Ottawa, Edmonton and cities across the U.S., suggests that this might not be the best way to proceed.

Jim Gollub, head of the economic strategy group at ICF, says there's nothing wrong with paying for a new industrial plant, if that's what you want to do.

His question is why you would want to do that when you could use the same money to make your regional infrastructure more attractive to all investors, now and in the future.

"The question is, why do you have to pay to attract a plant. Either the economic merits aren't there, or the company is playing you off against other regions." In either case, the long-term outlook is not terribly bright.

On the other hand, if the project goes ahead, perhaps Quebecers won't remember to look at the cost, while the Bouchard government will be able to crow that it "won" one of the biggest investments in Canadian history. And maybe that's the project's real point.

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